

CONTRACTOR PURCHASING SYSTEM REVIEW

(CPSR)

GUIDEBOOK

MARCH 2000

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I. INTRODUCTION

A. The purpose of this CPSR guidebook is to provide guidance for personnel who may be required to perform a CPSR as well as providing background information for those personnel who use the information developed during a CPSR

B. It is not expected that an individual can become an expert on CPSRs simply by reading this guidebook. This guidebook should provide the detail procedures on how to perform a CPSR which meets the needs of the purchasing systems analysts who regularly perform CPSRs. Please note that this guidebook is for reference only, is not directive in nature, and should not be used as a substitute for the relevant Federal Acquisition Regulation (FAR), DoD FAR Supplement (DFARS), and DCMC One Book policy guidance. Those who are not directly involved in conducting CPSRs, including contractors, will find that the CPSR guidebook will help increase their understanding of the CPSR process.

C. The CPSR guidebook should be used in training purchasing systems analysts, in seminars, for home study, and as a desk reference. It is expected that you will read this guidebook, think about it, and re-read it as necessary.

D. We encourage any suggestions to improve this CPSR guidebook. Suggestions should be submitted through channels to:

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II. [FLOWCHART](#)

III. RISK PLANNING

ACOs and CPSR Team Leaders must conduct two risk assessments. Annually a risk assessment must be conducted to determine the need for specific CPSRs. When a CPSR is required, a second risk assessment must be conducted to determine the scope of CPSR efforts. The CPSR specialist must identify the key processes, with supporting rationale that support the completion of a CPSR. Key processes are those which, if not properly controlled, can adversely affect contract performance, cost, or schedule. The [Contractor Risk Assessment Formats](#) and the [CPSR Risk Matrix](#) should be used to assess the need for a CPSR.

IV. RISK ASSESSMENT

CONDUCT INITIAL RISK ASSESSMENT

A. The CPSR team leader will identify potential qualifying contractors for CPSRs. The primary sources for these requirements are contractors currently in the program, requests from contracting officers and requests from the District CPSR focal point. The cognizant Administrative Contracting Officer (ACO), in coordination with CPSR Team Leader, local Management Council and Procuring Contracting Officer (PCO), should conduct two sets of risk assessments. The first risk assessment will determine which contractors will require an on-site CPSR.

B. “Risk”, as used in this context, means the Government’s financial, quality and delivery exposure posed by contractor operations. The first step in conducting a risk assessment is to collect certain data pertaining to the contractors. The following factors have a bearing on the risk contractors' purchasing systems pose to the Government:

1. Approval status history.
2. CPSR recommendations and repeat recommendations to the contractor.
3. Dates of previous CPSRs and other reviews.
4. Government contract mix: cost-type, firm fixed-price, etc.
5. Direct material and material overhead as a percentage of total sales.
6. Sales to the Government as a percent of the contractor's total sales.
7. Defense Contract Audit Agency (DCAA) audit reports.
8. Input from the contracting officers and members of their CO teams.

9. Education, training, and experience of the contractor's purchasing personnel.
10. The contractor's self assessment and internal auditing efforts.
11. The contractor's relative position in its industry.
12. Reorganizations, mergers, and divestitures.
13. Radical increases or decreases in sales.

C. The following is a brief discussion of these factors:

1. Approval status history. For a new contractor where a CPSR has not been performed, there will be no approval status history. Where this data is available, review of it gives a good picture of our risk. Does the contractor have a history of having an approved purchasing system or does its history show a record of bouncing back and forth between approved and disapproved? Clearly, a contractor with a with a history of a repeatedly approved purchasing system poses a smaller risk than the contractor with a history of approval being withheld.
2. CPSR recommendations and repeat recommendations to the contractor. For contractors whose purchasing systems have been reviewed before, the number of recommendations and repeat recommendations, when viewed over time, gives an indication as to the direction the contractor is moving with its purchasing system. Decisions to perform a CPSR should be based on whether previous recommendations were major recommendations (high risk), or minor ones (low risk). A pattern of major recommendations is an indication of high risk. Minor recommendations that are not repeat recommendations may not pose much of a risk at all. Major recommendations pertain to compliance with public laws, and high cost practices, and others as may be determined by the contracting officer.
3. Dates of previous CPSRs and other reviews. These data let you know how long a contractor has been in the CPSR program and how frequently it has been subjected to CPSRs. Alone, this information isn't particularly useful. However, coupled with other data, such as approval status, it is useful. Also, the longer the time span between CPSRs, the greater the risk that the contractor's purchasing system may have deteriorated. What other reviews have been made of the contractor's various systems? The results of a purchasing system reviews, for example, can add to your risk assessment.
4. Government contract mix: cost-type, firm fixed-price, etc. The contractor does not have the same incentive when performing on a cost type contract. CPSRs can help reduce costs on cost reimbursement contracts, because contractors have little other incentive to control costs. CPSRs benefit firm fixed price (FFP) contracts differently. Although contractors save money on FFP contracts, the Government benefits later because contractors must base their follow on proposals on lower historical costs.
5. Direct material and material overhead as a percentage of total sales. Contractors with large percentages of costs in direct material purchases will have high material overhead, as well. Any savings derived from conducting CPSRs will have a proportionately high return for the Government..

6. Sales to the Government as a percent of the contractors total sales.. Contractors selling commercial products tend to be driven by the competitive marketplace towards cost effectiveness and efficiency. This may not apply, however, for contractors in sole source situations, and when the Government is a relatively minor part of their total sales

7. DCAA audit reports. In addition to auditing costs, the DCAA auditor also audits some of the contractors systems, e.g., material management and accounting system (MMAS), and the estimating system. DCAA audit reports on such systems may indicate that they impact the purchasing system negatively, or vice versa.

8. Input from the contracting officer and other members of the contracting officer's team. Your primary source of information about a contractor is the ACO. The ACO is responsible for coordinating the efforts of all members of the field contract administration team and will be fully cognizant of the strengths and weaknesses of the contractor. All members of the ACO's team have important information that may affect your risk assessment. Talk to them.

a. Does the contractor have a delinquency problem? If so, is it related to the purchasing system? Delays in processing material requisitions may delay the issuance of purchase orders. Delays in obtaining quotations from prospective suppliers may delay the issuance of purchase orders and cause delivery delinquencies. Talk to the DCMC industrial specialist and engineer.

b. Does the contractor have a problem with meeting quality requirements of its Government contracts? If so, is it related to the purchasing system? Perhaps the quality requirements are not properly described in the purchase order to the supplier. Talk to the cognizant quality assurance specialist.

c. Does the contractor have a problem with its property control system? If so, does it relate to the purchasing system? For example, the Government contract may require the purchase of special tooling/special test equipment (ST/STE) that becomes the property of the Government. Does the purchase order make this clear, especially when the ST/STE will be in the possession of the supplier during the period of performance? Talk to the property administrator.

d. Does the contractor have a problem with other systems that impact the purchasing system? If so, are there any deficiencies that are due to, or cause, deficiencies in the purchasing system? Talk to the price/cost analyst.

9. Education, training, and experience of the contractor's purchasing personnel. This element is self-explanatory. The more capable staffs pose a smaller risk than the inexperienced, untrained staff. Also, note whether or not the contractor's purchasing personnel have experience in Government contracting.

10. The contractor's self assessment and internal auditing efforts. Some contractors perform self assessments and internal audits of their purchasing activity. A contractor who has an effective and aggressive self assessment and/or internal auditing program will lessen the risk to the

Government because the contractor is policing its own activities. Is the contractor participating in CRAG or some other PROCAS-type reviews? Often the contractor will share the results of its internal audit programs with the Government. The Contractor's data/results must be validated.

11. The contractor's relative position in its industry. Is the contractor alone in its industry or is it one of many? Generally, a sole source contractor poses the greatest risk. The theory is that competition will drive the contractor to be more cost conscious in order to improve its share of the market. What is the contractor's position in its industry? Is it a leader or trying to catch-up? Is it well established in its industry or a newcomer? Industry leaders and well-established contractors generally pose a lesser risk than others do.

12. Reorganizations, mergers and divestitures. Reorganizations, mergers, and divestitures can have an impact on a contractor's purchasing performance. Changes resulting from these activities can be expected but are not necessarily predictable. Purchasing personnel, policies, and procedures may be changed. New people may be brought in. Experienced people may be moved out or moved around. Purchasing policies and procedures may be changed. Morale may be affected in a positive or negative manner.

13. Radical increases or decreases in sales. These statistics are readily apparent. The impact of this kind of change isn't so apparent. It all depends on how the contractor responds to a radical change in sales. Radical increases in sales may overwhelm the contractor's purchasing personnel if they cannot respond to the increased purchasing activity in a timely manner. On the other hand, a radical decrease in sales may panic the contractor into layoffs that could affect purchasing.

There is no established scoring system that provides the right answer when performing this first risk assessment. The evaluation of the collected data depends on your judgment and ACO's. You perform the risk assessment in coordination with the ACO. There will be times when you will not have all the data discussed above. Successful risk assessments depend on your judgment and business insight. Once you have assessed the risk, you are in a position to prioritize the workload. If you determine that a contractor poses such a small risk that a CPSR need not be performed in the current year, document the file and notify the ACO. In order to manage the data required for risk assessment, it is recommended that the CPSR team leader establish a computerized data base and keep it current.

V. RISK HANDLING

DEVELOPING THE CPSR SCHEDULE

A. Based upon the risk assessment conducted in III above, contractors have been identified as being eligible for a CPSR. The CPSR team leader should develop a master annual schedule for conducting reviews. Factors to be considered in developing the schedule include the type of review considered, i.e., initial review, follow-up review tailored to specific ACO concerns, etc. Also, consider the date contractor's approval was granted (if currently approved), whether PCOs are considering new awards, and other relevant factors.

B. The team leader will also determine the scope and duration of the reviews to be conducted and the resources needed, e.g., the number of PSA's to be assigned. The team leader should determine what other Government personnel may be required, and the role of contractor personnel assisting the audit. The existence of audit reports on other relevant processes will affect the team leader's estimate of the amount of time to be spent on-site. The role of the various technical inputs is discussed below.

(1) DCAA

(a) When participating on CPSR teams, DCAA will be assigned the following topics, in order to utilize team member expertise in the most efficient manner and minimize disruption of contractor operations :

1. Material Estimating (usually they can extract information from existing Contractor Estimating System reports and flash audit records from individual prime contract proposal reviews)
2. Prompt payment discounts (DCAA auditors usually know contractor accounting personnel and their record keeping systems and techniques)
3. Interdivisional transfers (contractors usually process purchases from other corporate segments in the Accounting Department with which DCAA auditors are familiar)

(b) CPSR teams should request copies of any DCAA operations audits which may be relevant to the purchasing system (e.g., MMAS, inventory control, estimating system review, etc.). CPSR teams may also reduce DCAA on-site audits by sharing CPSR work papers with auditors planning to conduct internal control system audits. When requesting background data from contractors in preparation for CPSRs, team leaders should accept copies of similar data submitted to other review or audit teams (such as DCAA) if they contain current information.

(2) DCMC TECHNICAL SPECIALISTS

(a) Technical specialists should be requested to contribute to CPSRs in their assigned areas, with no duplication of effort.

(b) In order to minimize disruption of contractor operations, CPSR team leaders should request submission of excerpts from existing recent records held at CAO locations.

(c) CPSR team leaders should give any contractor self audit reports to the appropriate technical specialist for validation, which will satisfy the input requirement.

(3) CONTRACTORS

(a) CPSR Review specific. CPSR team leaders should request contractor self evaluation of the following processes (usually requested in background data requests forwarded through ACOs prior to on-site visits).

1 Standard purchasing and subcontract terms and conditions. Contractor legal counsel should review these clauses and certify that they are acceptable for use with the current FAR requirements. Contractor legal counsel should cite any changes that need to be made, and certify that the clauses will be acceptable upon their revision. Some companies contract out for legal support, and certification from these attorneys is acceptable.

2 Standardization program

3 Value analysis/value engineering program

4 Make-or-buy policies and procedures

5 Major subcontract administration

6 Contractor organization for purchasing

7 Purchasing policies and procedures

8 Purchasing reports to higher management

9 Purchasing cost saving reporting

10 Supplier evaluation and rating methods

11 Advance purchase planning

12 Purchasing from sources restricted by the Government

13 Comparative sales and purchasing data

14 Implementation of corrective action on previously identified deficiencies, and

15 Any deterioration in the purchasing system since the last CPSR, and corrective action taken to date.

(b) Coordinated audits. Team leaders should also invite contractors to increase their participation, either as full team members, or to some lesser degree, as seen fit by contractor management (e.g., share internal audit reports, conduct joint and coordinated audits, etc.). To ensure objectivity, contractor participants should be internal audit personnel, or otherwise outside the materiel/purchasing span of control. CPSR teams should not duplicate the efforts of its contractor team members, except as may be necessary to validate findings. CPSR teams may provide copies of current work paper documents to contractor team members, and accept from them contractor work papers. The degree of contractor participation should not be a factor in the ACO's decision to grant purchasing system approval.

(c) Self Governance. Contractors may increase their participation in CPSRs by volunteering to participate in CRAG Part 5, Purchasing. DCMC recognized CRAG as an element of PROCAS. This option is not appropriate for first time contractors because there would be no Government base line to use in the validation process. Contractors may submit their CRAG reports to their

ACOs at any time. When ACOs and CPSR team leaders conduct their risk assessments, they will use them to determine the scope of validation necessary, the scope of the overall review, and the desired degree of contractor involvement for the next review.

1. Taking the lead role, a contractor should notify its ACO of its intention to participate in CRAG Part 5.
2. The contractor meets with its cognizant CPSR team leader to establish the ground rules under which they will work.
3. The contractor should reduce to writing its internal audit plan for conducting its own CPSR on itself (covering all the processes delineated in this guidebook, and then request CPSR team agreement with, and ACO approval of, the plan.
4. The contractor should conduct its own CPSR in accordance with its Government approved plan, write its report covering all the required processes, and submit it to the ACO for validation.
5. Contractor internal auditors must obtain the cooperation of all company departments to correct purchasing system deficiencies, not just the purchasing and materiel departments.
6. ACOs should request CPSR teams to validate the contractor's findings, and to review any omitted processes specified in this guidebook, indicated by a risk assessment or negotiated with the customer.
7. CACOs and DCEs have authority to resolve problems related to conflicting CRAG Part 5 practices at different sites.
8. Where agencies outside DoD (NASA, etc.) have significant sales, PCO agreement should be sought before ACOs and contractors agree to implement CRAG Part 5.

(d) PROCAS Metrics. Many companies use health indicators and metrics to measure and report performance against predetermined tolerance levels. Such indicators are acceptable means for contractors to demonstrate effective purchasing systems, and to justify the continuance of purchasing system approval. They may not be used, however, to waive a risk assessments. Contractors should take the lead in establishing and reporting their metrics to the local CAO. CPSR teams should assist ACOs and these contractors to select the most important health indicators, and to evaluate the resulting metrics reports. There should be a zero tolerance level for noncompliance with public laws. ACOs should request CPSR teams to review any out of tolerance conditions to validate the contractor's findings and conclusions, and/or determine whether withdrawing purchasing system approval is warranted to protect the Government's interests.

1. The most important indicators for most contractor metrics would be the following:
 - a. Maximizing the incidence of competitive subcontracting (including price and other factors)

- b. Justifying and documenting the need for legitimate single and sole source purchases
- c. Obtaining cost or pricing data and information other than cost or pricing data from prospective subcontractors and flowing down the correct FAR clauses to awardees
- d. Performing effective cost analyses of cost data
- e. Obtaining cost accounting standards disclosure statements or valid exemption forms, and flowing down correct FAR clauses
- f. Performing effective price analyses of supplier quotations and proposals
- g. Performing effective negotiation with potential suppliers
- h. Providing advance notification to the contracting officer of intent to subcontract, and obtain ACO consent prior to award
- i. Definitizing letter subcontracts within 180 days or before 40% of the work is completed
- j. Maximizing on-time supplier deliveries to protect prime contract schedules and
- k. Maintaining a satisfactory small business program rating.

(4) CUSTOMERS

CPSR teams should request, through the ACO if appropriate, participation by buying office personnel on CPSR teams. Teams may also negotiate with customers to coordinate their own reviews with CPSRs, such as production readiness reviews, in order that relevant data may be shared with minimum inconvenience to the contractor.

C. When planning the schedule, the team leader should allow enough flexibility so that the schedule may be adjusted during the year. This may be due to contractors dropping out of the program due to a decrease in Government business, merging with other divisions, being purchased by another company, or new companies being identified as a greater risk. We should also look at coordinated audit possibilities with the different technical disciplines.

D. CPSR teams and CAO personnel who perform CPSRs should coordinate their schedules to minimize disruption to contractor operations, and to ensure that no duplication of effort occurs. Although the criteria and frequency of these reviews differs, successful coordination eliminates significant review preparation cost for contractors. In the absence of a coordinated effort, CAO personnel should provide copies of their most recent QDRs and progress reports to the CPSR team, or extract relevant information from their existing records, if possible. Although CPSR reports may describe deficiencies repeated in existing Quality Assurance's PCSR reports, they should not duplicate recommendations already made to the contractor through the ACO. Quality assurance deficiencies wholly unrelated to the purchasing system should not be factors in the purchasing system approval decision.

E. CPSR teams should respond to requests for assistance from engineers and program managers who may need general purchasing system status or information to develop project- specific

subcontracting information. CPSR teams should inquire with these personnel as to any project-specific information they may have which would be helpful in planning CPSR reviews.

F. Schedules should be shared between CPSR teams and the cognizant CAO small business office in coordinated reviews. Where schedules do not match, copies of the most recent compliance reviews should be requested. CPSR teams may negotiate with SADBUs on what information to provide which might be helpful for them (degree of competition, outreach efforts) in determining a small business program rating.

VI. RISK MONITORING

OBTAIN CONTRACTOR/GOVERNMENT DATA

A. Timeframes

1. For reviews conducted for DCMDI the requests for data should be forwarded to the ACO at least 90 days prior to the start of the review to allow for translation of the documents.
2. For reviews in the CONUS the request for data should be forwarded to the ACO 45 to 60 days prior to the start of the review.

B. Information Needed

1. Data to be Obtained from the contractor: (select that which is relevant to the scope of the review.)

a. It is the responsibility of the team leader to accumulate all of the information required. At the start of its on-site review, the team should have the following material:

- (1) Copies of the contractor's organization chart(s), showing the corporate management structure, down to at least the procurement department-head level.
- (2) Copies of the contractor's procurement organization chart down to at least the first level of supervision. Either the chart itself or an accompanying table should show the number and job classification (or assignment) of personnel reporting to each first-level and higher tier supervisor.
- (3) Copies of the contractor's procurement policy statement(s).
- (4) Copies of the contractor's procurement procedures.
- (5) Copies of all important procurement forms.
- (6) Summary of Contractor sales and purchasing data, as delineated in the CPSR software program.

(7) List of major open contracts (prime and subcontract) as of a selected cut off date, broken out by project name or description, face value, and Unliquidated Obligation (ULO).

(8) List of major subcontracts issued and/or high-dollar purchase orders currently outstanding with an open balance of \$25,000 or more as of cut off date showing vendor, item being procured, type of contract, dollar amount of face value, and ULO.

(9) Copies of management reports such as shortage reports, weekly or monthly workload and work backlog reports, scrap/salvage reports, and repetitive reports to company management and/or the Government.

(10) List of affiliates, autonomous or semiautonomous departments, and divisions indicating total amount of business awarded to each during current year.

2.. Information to be Obtained from Other Government Sources

a. The CPSR team supervisor should determine the extent of data that will be needed from other Government sources and send out the request letters at the same time as the letter requesting the data from the contractor.

b. The sources of information to be considered are Quality, Engineering, Production, Property, Small Business, Legal, Transportation, Packaging, and DCAA associates.

c. The CPSR team leader prepares a letter requesting the contractor to accumulate its information. The letter should be available for transmittal following initial notification and is normally addressed to the chief executive officer of the company. The team leader should discuss the information called for in the letter with the contractor and appropriate CAO officials. The CPSR team leader should also prepare letters requesting information from other Government sources that have been identified in the above section.

REFINE THE SCOPE OF THE REVIEW

A. Review of Available Data.

When performing the second risk assessment of potential contractors that are candidates for review, the CPSR team leader and team leader should consider the following:

1. Contractor sales data including the number of subcontracts issued during the review period.
2. Contractor's internal audits conducted prior to the scheduled review.
3. Customer input from ACOs, PCOs, and other cognizant Government personnel (e.g., Industrial Specialist, Quality Assurance Specialist, and Small Business Specialist).
4. Reports generated under PROCAS, CRAG, or other applicable reviews.
5. The last CPSR report.

6. Any DCAA audits that impact the purchasing system that were conducted since the previous CPSR, or if it is an initial review, audits conducted over the previous 12 months.

7. Any reports issued by the General Accounting Office (GAO), Inspector General (IG), Defense Criminal Investigative Services (DCIS), or other applicable investigative/audit reports, that could impact the purchasing system.

B. Assessing the Degree of Risk

1. Having decided that a review is necessary, the team leader, in conjunction with the customer, will conduct a second risk assessment to determine the depth and scope of the review to be made.

a. In most cases, an initial review should constitute a complete appraisal of the contractor's purchasing system.

b. Late reviews may, if considered appropriate, constitute a complete appraisal of the contractor's purchasing system or be limited to those areas that the customer and the team leader determine necessary for adequate system analysis. Some circumstances that should be considered when determining the extent of the review would be if the past review resulted in withholding or withdrawing system approval, a major change in the contractor's purchasing organization takes place, the contractor has been awarded a prime contract involving system management responsibility, or the contractor has no contracts that require production deliveries. Any new responsibility that affects the contractor's purchasing organization and its coordination with other departments would be a situation where the ACO would want to assure him/herself that the contractor's purchasing system was adequate for the purpose of dealing with the new responsibilities.

c. When a complete appraisal is not required, the review would be limited to those areas that have been identified as an area of weakness or of special interest/importance. For example, a GAO or IG report may indicate the need for a review limited to the particular area(s) under criticism. Similarly, if a deterioration in part of the contractor's system is discovered, such as in the performance of price/cost analysis or single/sole source justifications, only a review of those particular areas of the contractor's purchasing activities may be necessary.

2. Assignment of Resources

a. Personnel

(1) With the scope of the review decided upon, the CPSR team leader/leader must determine what resources will be needed to accomplish the review. The decision on how many PSAs will be needed and the length of on-site review time should be based on the type of review planned and the areas that will be included in the review.

(2) The CPSR team supervisors should give consideration to the background and skills of the team members. A versatile team will be able to take a broad view of the contractor's operations and appropriately distribute emphasis.

b. Funding

(1) Requests for CPSRs on contractors under DCMC cognizance that meet the criteria for a CPSR will be provided to any Government activity upon request at no cost to the recipient, including those requested by DCMD International .

(2) Requests from DoD activities for CPSRs on contractors not under DCMC cognizance should be honored when manpower is available, with per diem and travel costs provided by the requesting activity, i.e., Air Force, and Army Corps of Engineers.

(3) Requests from non-DoD activities for CPSRs will be honored on a reimbursable basis, i.e., DOE (Department of Energy), and NASA.

3. Identification of Divisions Included in the Review

If the contractor's purchasing system covers multiple locations, then the ACO, the CPSR team leader need to determine which locations will be included in the review. If assistance is required from another CAO's CPSR team, a formal request will be sent to the appropriate CAO. The assisting CAO should be informed if its efforts should be billed for reimbursement.

ARRANGE ON-SITE REVIEW

A. After the scope of the CPSR has been determined, planning the actual effort will begin. The following tables provide a general guide to the extent and type of planning activities required:

INITIAL/INDEPTH CONTRACTOR PURCHASING SYSTEM REVIEW

TIME LINE

TASK

6-8 weeks prior to scheduled start of the on-site visit

Contact ACO, and team members to reconfirm review dates, arrange logistics.

4-6 weeks prior to scheduled Start of the on-site visit

Mail request for data to the contractor and the other Government specialists

2-4 weeks prior to scheduled on-site visit

Team leader receives list of purchase orders and selects sample

1 week prior to scheduled on-site visit

Team leader reviews all data received from the contractor and the Government specialists and prepares entrance conference

notes and arranges meetings as necessary.

LATER REVIEWS

<u>No. Of Weeks</u>	<u>Interval</u>	<u>Task</u>
2-4 Weeks	2-4 weeks prior to scheduled on-site visit	Team leader determines which steps are required to accomplish the review
1 Week	1 week prior to on-site visit	Team leader selects sample, if necessary, and prepares entrance conference notes

B. Adequate Working Space

A room adjacent to, or close by, the purchasing department should be provided to serve as the team's on-site location. Normally contractors provide CPSR teams with hard copy purchase order folders that it used in its own internal approval cycle, supplemented with working folders if they are requested. Therefore, the team's working room should contain enough tables or desks to seat all the members and to permit them to spread out the folders they will be reviewing. The room should be large enough to hold interviews of contractor personnel. It should have electrical outlets for the laptop or notebook computers used to evaluate the purchase order/subcontract folders. A file cabinet that can be locked at night should also be provided to protect the folders and the computer equipment if the room is not lockable. If the room is locked at night, the contractor should ensure that the room is open during core hours.

C. Overall Administration

The team leader will serve as the overall administrative chief for the team, coordinating its efforts with those of the contract administration offices. Responsibilities should include arranging meeting times and places, determining any special facilities needed and assuring the security of all the material made available to the team during the review. The team leader may delegate any of these administrative duties as necessary.

D. Security

1. Restricted access to a contractor's facility will slow the progress of the CPSR team. When required, it is recommended that the team leader arrange with the contractor to have non-escort badges available to the CPSR team members from the first day of the on-site review. Any Government property (e.g., laptop computers) brought into the contractor's facility may require registration with the contractor's security office. The team leader should inquire about this, and restrictions on removing audit records from the plant, before starting the on-site review.

2. When planning a review in a foreign country, it is necessary to request and obtain country clearance. The required procedures are somewhat unique to each country. Guidelines are published in the DoD Foreign Clearance Guide, DoD 4500.54G. Country clearance usually serves as security clearance to enter the contractor's facility allowing the team members access to relevant production plants as well as administrative offices. It will not always be required, but it is recommended that CPSR analysts frequently traveling abroad on business obtain a Government passport.

CONDUCT CPSR

A. Conduct Pre-Review Meeting (Government Personnel Only)

1. On the first day of the on-site visit, the team leader should hold a meeting with all the members of the team including the CO, buying office representatives and DCAA. At this meeting, the team leader should state the plan for the review. If not done earlier, the team leader should announce the assignments of the team members and define their responsibilities for writing draft report paragraphs covering their respective topic areas. The extent of the contractor's participation in the review should be described.
2. Government personnel should be invited to share with the team any purchasing system-related reviews and audits, such as operations audits, property system surveys, MMAS audits, etc., which may have been conducted during the previous 12 months, which may enable the team to forego duplicative effort.
3. The CAO commander, deputy, or ACO should be requested to describe briefly the contractor's major programs, where the work is performed, whether there is significant research and development work, and the contractor's general attitude toward the impending review. The ACO should inform the team of specific topic areas of concern. This meeting should establish who will attend the entrance conference and who will speak for the Government on the various aspects of the review. The Memorandums of Agreement between DCMDI and the CONUS CPSR Districts should be reviewed in detail before meeting the overseas contractors.

B. Conduct Entrance Conference with Contractor

1. The team leader should open the conference by introducing the Government attendees, beginning with the CAO commander, the deputy commander, the ACO, etc., down the chain of command. If the contractor personnel in attendance are not familiar with CPSRs, the team leader should explain CPSRs and the benefits accruing to both the Government and industry. At all conferences, the team leader should explain the extent of the review to be undertaken, the purchasing system sub-processes most important to gaining system approval, and the timing of events. Inform the contractor that only the ACC will give official directions.
2. The contractor may agree to provide a briefing on the purchasing system at the entrance conference .

C. Review Policies, Procedures and Forms.

The team's first task is to review the contractor's policies, procedures, and forms in order to know how the purchasing system should operate.

D. Review Random Sample of Purchase Orders and Subcontracts.

1. Once the team has familiarized itself with the policies, procedures and forms, the team should analyze the selected sample of purchase order folders drawn randomly from the contractor's files. The team will normally review the purchase orders using CPSR software. If one or more members of the team uses the hard copy form, the data may be computed manually and entered into CPSR software upon return to the duty station. The CPSR model software may be loaned to contractor and outside agency personnel to use during joint audits or when they participate in CPSRs. Purchase/subcontract orders awarded by the contractor exclusively in support of Government contracts awarded to the contractor using competitively awarded firm fixed price and fixed price with economic price adjustment procedures, or that are for commercial item contracts pursuant to FAR Part 12, will be excluded from review.

2. For contractors who have "paperless" systems and/or keep records in an automated storage system, CPSR personnel must access the records in the medium used by company personnel. The team must also determine the integrity of the contractor's methods for authenticating internal approval signatures and vendor certifications in automated systems. Unless FAR or the contracting officer require originals, CPSR teams will consider as acceptable, vendor certifications, proposals, etc., in facsimile form.

3. The team leader, in consultation with the contractor's liaison, should determine whether to ask questions as they come up in the purchase order review, or to save them to ask several at one time. Any apparent deficiencies should be verified through interviews with the buyers or liaison personnel before final judgement. If deficiencies relate to contract clause compliance, the team should check the contractor's copy of the prime contract to verify applicability.

4. Team members must conduct their interviews in an objective manner, inviting contractor personnel to be frank and forthcoming with information. In many cases, CPSR teams educate new buyers by virtue of their questions/explanations of Government policy. Care must be taken, however, not to direct contractor personnel to take specific actions which may incur constructive change problems for the customer. Team members should not criticize company management or discuss possible legal violations (e.g., acceptance of subcontractor kickbacks) in the presence of other contractor personnel.

5. CPSR teams should custom tailor the sample size of purchase orders and subcontracts where contractors conduct their own internal audits, including CRAG Part 5, or a PROCAS type teaming arrangement. CPSR teams will sample purchase orders reviewed by the contractor, and a percentage of purchase orders not included in the contractor's sample. This will provide confidence that the contractor's sample is representative of the universe.

E. Compile and Analyze Statistics

1. The CPSR Software Model program automatically sorts and prints spreadsheets detailing the data gathered from the sample purchase orders. It also compiles statistics and prints statistical summaries.

2. Each member of the team should examine the statistical summaries and share their opinions on what trends appear to exist, and what directions to take for the rest of the review. Negative indicators occurring early in the year only may indicate that the contractor already has taken corrective action. Purchase lead time and delivery statistics deserve particular attention. For example, 30 days lead time may not necessarily be too short for some products, and 90 days is definitely not enough for long lead items.

3. Verify the facts concerning any apparent public law violations.

a. Cost or Pricing Data requires obtaining one or more cost data submissions upon which prime and subcontractor negotiations were based, and a certificate that the most recent cost data was accurate, current and complete (analyzing cost data is a good business practice requirement, not a legal requirement).

b. Cost Accounting Standards requires obtaining disclosure statements or exemption certificates from subcontractors and flowing down the CAS clause in qualifying subcontracts (notifying the ACO is a regulatory, not a legal, requirement).

c. Notifying contracting officers before awarding subcontracts under cost plus fixed fee prime contracts is a legal requirement (notifying contracting officers of pending awards under other types of prime contracts, and obtaining ACO consent in all cases, are regulatory requirements, not legal ones).

d. Contractors failing to definitize their letter subcontracts before 40% of the work is accomplished (or within 180 days - whichever comes first) is a violation of FAR 52.244-2 and public law.

4. Any violation of Public Law constitutes a major system deficiency. The team must analyze the causes and circumstances of each situation to arrive at an outcome which also is in the best interests of the Government. In most situations, negative statistical indicators provide a basis for further inquiry, and should not be used alone to justify recommendations for corrective action.

5. When comparing CPSR team statistics to those submitted by contractor internal audit, team members should determine whether the results are similar enough to support the contractor's conclusions. If the results are dissimilar, the team should attempt to discover a reason for the finding through discussions with the contractor liaison, and/or select an additional sample of purchase orders and subcontracts on which to base further analysis.

F. Interview other Contractor Personnel:

1. Interview other contractor personnel on issues resulting from the analysis of statistics and also on areas not covered in the sample. During the sampling of purchase order process, the PSAs may have questions concerning some of the files that were reviewed. This does not necessarily mean that the files are deficient, but it does mean that further explanation or clarification is needed. Typically the questions are answered by the cognizant buyer or senior purchasing/subcontracting management. The response may be oral or written depending on the complexity of the question and the response. There will also be occasions where the PSAs will have to interview personnel from outside of the purchasing organization regarding questions that are not under the control of the purchasing personnel. For example, there may be a question regarding the requisitioning process.

2. Interviews may also have to be conducted with personnel from outside of the purchasing area covering topics that may be included in the CPSR report but are not directly touched on in the sampling process. The following, though not all encompassing, covers some of the areas that should be addressed: standardization, value analysis, make-or-buy and ethics.

G. Final Review Team Inputs.

Prior to the conclusion of the on-site portion of the CPSR, the review team must review the input from all team members to decide if there are still any areas where further investigation is needed. If a team member had indicated that there were problems in certain areas, these should have been addressed with the contractor during the course of the review. If there is disagreement with the contractor, or the contractor has proposed a solution to the problem, the team leader is responsible for coordinating resolution.

H. Write Preliminary Observations and Findings.

Once all on site activities have been completed, it is time to assess the results of the reviews. The team leader will write preliminary observations and findings that will provide the basis for the exit conference discussion and formal CPSR report. The PSAs will need to consider the results of the sampling, and the team members' input. After the statistics have been reviewed, along with all of the other information generated during the review, it is now time to decide if any problems found are serious enough to warrant presenting formal recommendations to the contractor requiring corrective actions. It should be recognized that there may be situations where isolated non-systemic problems are found. While a formal recommendation may not be warranted, the problem should be addressed in the exit conference and discussed in the CPSR report to preclude problems in the future.

I. Informal Exit with Contractor's Purchasing Staff.

It is a good practice to have an informal exit meeting with the purchase personnel. It provides the purchasing personnel with advance warning on what will be discussed at the exit conference. It provides the purchasing staff with the opportunity to provide additional information or evidence that could have an effect on the review team's findings.

J. Discuss observations/findings with the ACO.

The ACO must be kept apprised of the progress of the review. There are at least three areas that should be discussed with the ACO. The first is to confirm the ACO's attendance at the exit conference. Secondly, and most importantly, the review team should go over the results of the review and then discuss the proposed recommendations. Depending on the desires of the ACO, an in-depth presentation may be required or a brief summary may suffice. The Team Leader and the ACO have an understanding of the formal recommendations. Finally, the ground rules for the exit conference should be discussed. It is preferable that the ACO letter transmitting the findings and recommendations be signed at the conclusion of these discussions. In the event that the ACO will be unable to attend the exit conference, the Team Leader will still need to brief the ACO as explained above. However, in addition, to this, he/she will have to explain that an informal list of findings may be presented to the contractor at the exit conference. This document should list the recommendations, and alert the contractor that the ACO's formal letter with recommendations will be forthcoming. It is also a good practice to invite the Commander of the CAO or their representative to attend the exit conference.

K. Formal Exit Conference:

1. On the last day of the in-plant portion of the review, the review team will hold an exit conference with the contractor's top management. A letter with recommendations for improvement of the purchasing system will be presented. It is not necessary that the exit conference be held on the last day of the review since schedule conflicts may arise.
2. The exit conference should always be held with the contractor's upper management to make sure that they are aware of any serious problems that may have been uncovered. The letter with recommendations is given to the top contractor official in attendance. The team leader will usually explain the basis for the recommendations, may review the statistics resulting from the sampling process, and give the overall results of the review. It can usually be assumed that purchasing management will have briefed upper management on the results, so an in-depth explanation of every facet of the review may not be necessary. The team leader should provide responses to unanswered questions as soon as practical. The team leader should provide positive observations as well as negative comments.
3. The ACO's letter with recommendations should request that the contractor respond within 15 days with its corrective action plan to the ACO. The team leader highlights this during the exit conference, and requests that the contractor provide copy of their response to the team leader.

VII. RISK DOCUMENTATION

Write Report and Recommendations

- A. The summary format shown at Exhibit A identifies the contractor, process reviewed, and any recommendations for contractor corrective action. A decision will be made to write a

summary (Exhibit A) or an expanded report (Exhibit A + B) in coordination with the customer. Teams may supplement their reports, based on agreements reached with the customer, and their risk assessment of purchasing system conditions discovered on-site. CPSR teams should honor NASA's and others' requests for expanded report coverage. Evidence of CPSR supervisor's review of the final report should be held in the official file. Work papers should be maintained in CPSR files in case of customer request for additional information at a later date. Other topics included will be matters of judgement, based on the nature of the findings.

1. Report paragraphs should state conditions as they exist, any discernible trends, and their impact on efficient operations and implementation of prime contract requirements and good business practice.
2. The team should include only those statistics, generated manually or by the CPSR model, which are relevant to the paragraphs selected to satisfy the customer's request. Statistics will be included in the paragraph itself, and not attached as a report appendix.

B. The expanded coverage format shown at Exhibit B is in addition to all information provided in Exhibit A. The following exceptions apply:

1. When contractors have submitted internal audit reports on a portion of their purchasing system to the Government, the CPSR team should attach copies of those reports to the summary, and include a paragraph stating the Team's validation method and results. The summary should not duplicate topics included in these internal audit reports.

2. When contractors submit internal audit reports, CPSR teams may substitute those reports for Exhibits A and B. They should attach an addendum describing the validation performed and any additional topics desired by the customer but not covered by the internal audit.

EXHIBIT A

SUMMARY REPORT FORMAT

CONTRACTOR'S COMPLETE NAME AND ADDRESS

Corporation Name:

Group Name:

Division Name:

Subdivision Name:

Affiliate Name:

Street Address:

City, State, (Country if applicable), Zip Code

ORGANIZATION CONDUCTING THE REVIEW

Organization Name:

Address:

Name of Team Leader:

Team Leader Phone No:

Period of In-Plant Review:

Period Covered for this Review:

Case Number:

Report Date:

Signature of Team Leader

UNLESS PERMISSION IS RECEIVED FROM THE CONTRACTING OFFICER THIS REPORT SHALL ONLY BE DISTRIBUTED IN ACCORDANCE WITH FAR SUBPART 44.307.

RELEASE OF THIS REPORT IS COVERED BY THE FREEDOM OF INFORMATION ACT, 5 U.S.C. 552.

THE SUPPORTING WORK PAPERS APPLICABLE TO THIS REPORT ARE RETAINED IN THE FILES OF ORGANIZATION CONDUCTING THE REVIEW.

RECOMMENDATION OF THE CPSR TEAM TO THE CO: Grant (Withhold) approval of the contractor's purchasing system.

THE GOVERNMENT IS NOT PRECLUDED FROM QUESTIONING ISSUES OR COSTS WITHIN THE CONTRACTOR PURCHASING SYSTEM REVIEW CENTER

1. REVIEW TEAM MEMBERS AND REVIEW METHODS

a. The review was performed by:

(Name) (Organization)

b. Contractor personnel contacted:

(Name) (Position)

c. Review methods included: evaluation of implementation of prior recommendation(s); analysis of purchasing ethics, procedures, and practices; examining samples of recently awarded subcontracts and purchase orders; and, discussions with the contractor's purchasing/subcontracts and management personnel.

2. Previous Status of Purchasing System

a. Prior Review

A CPSR was performed in month/year (CASE NUMBER). The CO granted approval of the Contractor's purchasing system by letter dated _____. (The CO withheld/withdrew approval of the contractor's purchasing system approval by letter dated _____)

b. Status of Prior Recommendations

As a result of the prior review, there were _____ recommendations transmitted to the Contractor by CO letter. The team's current review disclosed that _____ recommendations were implemented and recommendations are withdrawn based on clarifications].

Recommendation

Status

- | | |
|-----|-----------------|
| (1) | Implemented |
| (2) | Implemented |
| (3) | Not implemented |

3. OVERVIEW OF CONTRACTOR'S BUSINESS OPERATIONS (incl statistical reports)

4. COMMENTS ON THE CONTRACTOR'S EFFECTIVENESS IN MAJOR PURCHASING AREAS:

a. Extent of Competition

State the quality and depth of competition (number of quotations per solicitation) received, including the weights given to price and other factors. Discuss the responsibility of the vendors responding, and their ability to perform, (e.g., plant capacity, etc.).]

b. Applicability and Implementation of Best Value Purchasing Methods

c. Control of Single Source and Sole Source Purchasing

State the ratio of competitive to noncompetitive awards, the contractor's rationale for single and sole source awards, and whether those rationales were justified by documentation.

d. Small Business, Small Disadvantaged Business and Women Owned Business Programs

e. Price Analysis and Cost Analysis Methods

f. U.S. Public Laws (without statistics)

(1) Public Law 87-653, "Truth in Negotiations"

(2) Public Law 100-679, "Cost Accounting Standards"

(3) Public Law 101-121, Limitation on Use of Appropriated Funds to Influence Certain Federal Transactions

(4) 10 U.S. Code 2306(e), Advance Notification and ACO Prior Consent

g. Major Subcontracts

h. Other Areas

5. Current Recommendations to the Contractor

6. Distribution

EXHIBIT B

EXPANDED COVERAGE OPTIONS

1. Management Attitude Toward Purchasing

2. Purchasing Organization (with Organization Chart)

a. External Purchasing Organization

b. Internal Purchasing Organization

c. Training and Experience of Purchasing Personnel

3. Policies and Procedures

4. Purchasing Forms

5. Purchase Order and Subcontract Clauses

a. Restrictive Clauses

b. Special Clauses

c. Side Agreements

d. Statistics on Public Laws

(1) Truth in Negotiations (PL 87-653)

(2) Cost Accounting Standards (PL 100-679)

(3) ACO Notification and Consent (10 U.S. Code 2306(e))

6. File Documentation
7. Quality Assurance/Program Integrator/Industrial Specialist Input
 - a. Joint Reviews
 - b. Value Analysis/Value Engineering
 - c. Prime Control of Subcontractor Surveillance and Reviews
 - d. Standardization
8. Make-or-Buy Program
9. Material Estimating/Budget Control (should not be necessary if DCAA has issued a Contractor Estimating System Review report in the last 12 months)
10. Developing Purchase Requirements
 - a. Advance Purchase Planning
 - b. Identifying Purchase Requirements
 - c. Establishment of Schedules/Purchasing Lead Time
 - d. Inventory Control
 - e. Material Control Methods (should not be necessary if DCAA has issued a MMAS report in the last 12 months)
 - f. Expediting and Follow-up of Purchase Orders
 - g. Receiving
 - h. Transportation
 - i. Packaging
11. Source Selection
 - a. Competition
 - b. Solicitation and Receipt of Proposals
 - c. Supplier Portfolio
 - (1) Intra-company Transactions
 - (2) Unaffiliated Companies
 - (a) Small Business Subcontracting Plans (obtaining such plans)
 - (b) Supplier Rating System
 - (c) Subcontractor Responsibility/Vendor Performance Rating
 - d. Single and Sole Source Purchasing
 - e. Small and Disadvantaged Business Subcontracting (level of awards to such suppliers)

f. Letter Subcontracts and Advance Authorizations

12. Pricing

a. Selection of Subcontract Types

b. Conduct of Negotiations

c. Cash Discounts and Terms

d. Handling Low Dollar Value Purchases

e. Purchase Order Changes/Modifications

f. Subcontract Terminations

g. Subcontract Close Out

Evaluate Corrective Action Plan:

The ACO should request the contractor to provide the Corrective Action Plan within 15 days after the exit conference. The ACO should forward a copy of the Corrective Action Plan to the CPSR team leader for evaluation. The CPSR team leader should evaluate the Corrective Action Plan for responsiveness to the recommendations, appropriateness of corrective actions, and capability of meeting the designated milestones. Unacceptable Corrective Action Plans should be returned through the ACO to the contractor for reconsideration and rework.

APPENDIX A - BEST VALUE SUBCONTRACTING CONSIDERATIONS

Reference: DLAH 4105.3, "Buying Best Value through Source Selection", July 1990

APPENDIX B

Reserved

APPENDIX C - TYPICAL CONTENT OF CONTRACTOR POLICIES, PROCEDURES AND FORMS

1. Typical contractor policy and procedures include statements covering the following:

(1) Management of purchasing.

(i) Who has the authority to make commitments and to question quality and quantity of material requisitioned or received.

(ii) Assure that purchasing personnel are complying with applicable public laws and implementing Government regulations (e.g., Truth in Negotiations, Cost Accounting Standards).

- (iii) Control and restriction of reciprocity (e.g., trade agreements, side agreements, etc.).
- (iv) Purchasing file requirements.
- (v) Control the use of nonstandard parts and components by subcontractors.
- (vi) A make-or-buy program, including cost considerations as well as assessments of subcontract and in-house engineering, manufacturing, and quality assurance capabilities.
- (vii) Use of ADPE systems in processing purchases.
- (viii) Acceptance of gifts, gratuities and subcontractor kickbacks, and conflicts of interest.

(2) Development of purchase requirements.

- (i) Timely preparation and appropriate review, approval, and transmission of an accurate and complete technical data package and purchase requisitions.
- (ii) Reviewing requisitions to consolidate all requirements (Government and commercial) for the same or similar items - reviewing requirements against available stocks and surpluses.
- (iii) Inventory control.

(iv) Transportation and packaging.

(v) Preparation, processing, and issuance of purchase orders.

(vi) Assuring that purchasing documents include appropriate source inspection requirements (prime contractor and Government).

(vii) Assuring flow down to purchase orders and subcontracts of applicable prime contract terms and conditions.

(viii) Variations in quantity.

(3) Selection sources.

(i) Developing and soliciting potential subcontractors.

(ii) Obtaining competition.

(iii) Controlling intra-company transactions with affiliates, subsidiaries, or parent company.

(iv) Requiring written justification of sole source purchasing.

(v) Assuring that the subcontractor's quality system complies with the prime contractor's quality assurance program requirements and product testing.

(vi) Preaward survey of prospective suppliers.

(vii) Complying with the small business and small and disadvantaged business subcontracting program contract clauses.

(viii) A vendor rating system and vendor cause histories.

(ix) Fully justifying purchases from suspended or debarred firms.

(4) Pricing.

(i) Cost or price analysis.

(ii) Timely furnishing of current supplier quotes and negotiated price data for use in proposal preparation.

(iii) Establishing and documenting negotiation objectives and their difference with the negotiated price.

(iv) Requiring written justification of second or subsequent best and final offers and split awards.

(v) Obtaining prompt payment discounts from subcontractors.

(vi) Effectively processing a high volume of low dollar value orders and calls against blanket orders and open-end subcontracts.

(vii) Selecting the proper subcontract type.

(viii) Controlling cost reimbursement, time and material, and labor-hour subcontracts.

(ix) Consultant contracts or agreements.

(x) Identification of bidders subject to Cost Accounting Standards and compliance with its contractual requirements.

(xi) Use of bidders debarred, suspended and proposed for debarment by the Federal Government.

(xii) Obtaining subcontract certifications prior to award of subcontracts.

(5) Subcontract award and administration.

(i) ACO advance notification and consent.

(ii) Timely definitization of undefinitized actions (e.g., letter contracts) and changes.

(iii) Subcontractor reporting requirements for postaward management.

(iv) Maintaining visibility of subcontracts in the areas of cost, schedule, and performance.

(v) Monitoring progress payments to subcontractors.

(vi) Requiring subcontractors to identify and record nonconformance, determine cause of defects, implement timely corrective action, and provide appropriate notification.

(vii) Verifying subcontractors' control of calibration, measuring, and test equipment.

- (viii) Controlling subcontractor acquisition of special tooling and test equipment.
- (ix) Use of Government property.
- (x) Receiving, inspecting, accepting, and returning material.
- (xi) Adequate review and processing of terminations.

2. Purchasing Forms

- (i) Are the contractor's various forms used for purchasing well prepared and consistent with written procedures, good business practices, and special needs of the Government?
- (ii) Do personnel use these forms correctly and properly?
- (iii) Does someone have responsibility for forms analysis to control for use and simplify records?
- (iv) Are there forms for normal use?
- (v) If the contractor uses purchase order forms to process interdivisional transfers, are the forms clearly identified as IDWAs (and not purchase orders to intraplant transfers) in order that they may be easily identified and audited by DCAA and company internal audit?
- (vi) Are forms self explanatory?
- (vii) Are there any forms which duplicate each other?
- (viii) Can different forms be combined (i.e., PO and receiving reports) to eliminate unnecessary ones?
- (ix) Does Receiving retain receiving reports for excessive periods of time before notifying purchasing?

APPENDIX D – RISK ASSESSMENT GUIDANCE

CONTRACTOR RISK ASSESSMENT FORMATS

SAMPLE FORMAT (1)

Contractor's Name:

Address: _____

Assessment Date: _____

A) Approval Status History

Assigned Risk Factor

- 5 - Contractor always has a disapproved system
- 4 - System vacillates between approved and disapproved
- 3 - No status, new contractor
- 2 - Approved status renewed after last CPSR
- 1 - Contractor maintained approved system continuously _____

B) CPSR recommendations and repeat recommendations to the contractor

- 5 - CPSR recommendations are major and repeat
- 4 - CPSR recommendations are either non repeat majors or repeat minors
- 3 - Numerous minor recommendations but few or no repeats
- 2 - Few or no major recommendations, few minors, no repeats
- 1 - No major recommendations and few minors _____

C) Dates of previous CPSR's and other reviews Assigned Risk Factor

- 5 - 48-60 months
- 4 - 36-47 months
- 3 - 24-35 months
- 2 - 12-23 months
- 1 - <12 months _____

D) Government contracts mix (cost type, FFP, etc.)

- 5 - Dollar value of contracts 80 to 100% cost type
- 4 - Dollar value of contracts 50 to 79% cost or T&M
- 3 - Dollar value of contracts 30 to 49% cost or T&M
- 2 - Dollar value of contracts 10 to 29% cost or T&M
- 1 - Dollar value of contracts 0 to 9% cost or T&M _____

E) Direct material and material overhead as percentage of total sales

- 5 - >50%
- 4 - 40-50%

3 - 30-39%

2 - 20-29%

1 - <20%

F) Sales to the Government as percent of the contractor's total sales

5 - 80 to 100%

4 - 60 to 79%

3 - 40 to 59%

2 - 10 to 39%

1 - <10%

G) DCAA Audit Reports

Assigned Risk Factor

5 - Major CAS non-compliance findings

4 - Few major and minor audit findings

3 - No status, new contractor

2 - No major, few minor recommendations

1 - Consistently complied with all system issues

H) Input from the contracting officers and their CO teams

5 - Major areas of concern

4 - Few major areas and minor areas of concern

3 - No status, new contractor

2 - No major few minor areas of concern

1 - Consistently no major or minor concerns

I) Education, Training & Experience of Contractor Purchasing Personnel

5 - Training program needs improvement, education level low, high turnover

4 - Training program needs improvement, average education level, moderate turnover

3 - Adequately trained, average education level, moderate turnover

2 - Well trained, high education level, low turnover

1 - Well trained, well educated, very experienced

J) The Contractor's Self Assessment and Internal Auditing Efforts

5 - No efforts or program in place

4 - Program needs improvement, results not shared or validated

3 - Adequate program results shared but not validated

2 - Adequate program results shared and validated

1 - Strong program, results shared and validated

K) The Contractor's Relative Position in Industry

Assigned Risk Factor

5 - Sole source, not a leader in its industry

4 - Not a sole source, but is not a leader or a newcomer

3 - One of few but not the leader, well established

2 - One of many but not the leader, well established

1 - Industry leader, well established

L) Reorganizations, Mergers and Divestitures

5 - Currently in merger/reorganization mode

4 - Planning stage in merger/reorganization mode

3 - No status, new contractor

2 - Fairly well established

1 - No long range plan to merger or be acquired

M) Radical Increase or Decreases in Sales

5 - Currently in Major Decline in Sales for Last 3 years

- 4 - Experience few major or minor declines in sales
- 3 - Fairly stable, no decline/increase in sales
- 2 - Stable, no long range decline/increase in sales
- 1 - Stable, well established, continue increase in sales _____

DETERMINATION

Sum of assigned risk factors _____

Divide by number of factors used _____

Contractors average risk factor _____

<u>Composite Rating</u>	<u>PBAM Rating</u>	<u>Oversight Level/Intensity</u>
1.0 - 2.8	(1)	LOW
2.9 - 3.3	(2)	MEDIUM
3.4 - 5.0	(3)	HIGH

_____ Contractor does not need risk assessment during FY _____

_____ Contractor needs risk assessment during FY _____

_____ Contractor requires CPSR during FY _____

CONCURRENCE

We concur that the above decision has been made based on Risk Assessment Criteria Performed by the undersigned.

CPSR Team Lead _____ ACO _____

Date: _____

Date: _____

SAMPLE FORMAT 2

CPSR RISK ASSESSMENT

Contractor Name: _____

Address: _____

1. Approval Status History:

2. CPSR Recommendations and Repeat Recommendations to the Contractor:

3. Date of Previous CPSRs and other Reviews:

[CPSR RISK MATRIX](#)

ELEMENT: _BUSINESS & FINANCIAL SYSTEMS SERVICES

Sub-Element: Contractor Purchasing System Reviews

RISK CATEGORY	PERFORMANCE	SCHEDULE	COST
<p>HIGH (3)</p> <p>--Performance data casts significant doubt on the system or key process ability to meet requirements. A major disruption is highly probable and the likelihood is the supplier will not achieve the performance, schedule or cost objectives</p>	<ul style="list-style-type: none"> • Delinquent end item delivery • Frequent departures from make/buy program • Poor or nonexistent internal audit/self governance • Failure to meet socio-economic subcontract goals • Frequent overruns • Inadequate incoming inspection methods 	<ul style="list-style-type: none"> • Frequent late supplier deliveries<80% • Inadequate leadtime provided to ensure on-time delivery of critical items • Inadequate subcontract administration and expediting methods • Failure to utilize DPAS • High turnover of suppliers • Inadequate vendor rating system • Metrics not used 	<ul style="list-style-type: none"> • Public Law violations (TINA) • Inadequate price/cost analysis methods • Inadequate negotiation skills • Infrequent use of competitive procurement • Frequent payment of transportation premium • Failure to take fast payment or quantity discounts
<p>MODERATE (2)</p> <p>--Performance data casts doubt on the system or key process ability to meet requirements. Some disruption is probable and the likelihood is the supplier will encounter delays in meeting the performance, schedule or cost objectives. When performance data is insufficient on a system or key process shall be classified as moderate risk.</p>	<ul style="list-style-type: none"> • Marginal internal audit/self governance • Occasional failure to meet socioeconomic subcontracting goals • Some departure from make/buy program 	<ul style="list-style-type: none"> • Some late supplier deliveries<90%>80% • Lead-time adequate for critical items, sometimes inadequate for noncritical items • Some weaknesses in subcontract administration and expediting methods • Some utilization of DPAS • Moderate turnover of suppliers • Some use of metrics 	<ul style="list-style-type: none"> • Some TINA compliance • Moderate adequate price/cost analysis methods • Inadequately documented negotiations • Moderate degree of competition obtained • Infrequent payment of transportation premium • Some discounts taken
<p>LOW (1)</p> <p>--Performance data provides confidence in the system or key process ability to meet requirements. Minimal or no impact will occur in meeting performance, cost or schedule objectives.</p>	<ul style="list-style-type: none"> • Satisfactory monitoring and inspection of vendor quality compliance • Good vendor rating system for quality and delivery • Satisfactory make/buy policies and practices • Good internal audit/self-governance • Meets or exceeds socio-economic goals 	<ul style="list-style-type: none"> • Adequate lead-time • Satisfactory supplier deliveries>90% of the time • Good subcontract administration and expediting methods • Accurate vendor rating system • Full use of DPAS • Low supplier turnover • Effective metrics use 	<ul style="list-style-type: none"> • TINA compliance • Satisfactory price/cost analysis methods • Negotiations conducted where applicable; adequate documentation • Satisfactory degree of competition obtained • Rare use of transportation premium

